C8650-5A
1/20/87

DUN'S BUSINESS MONTH

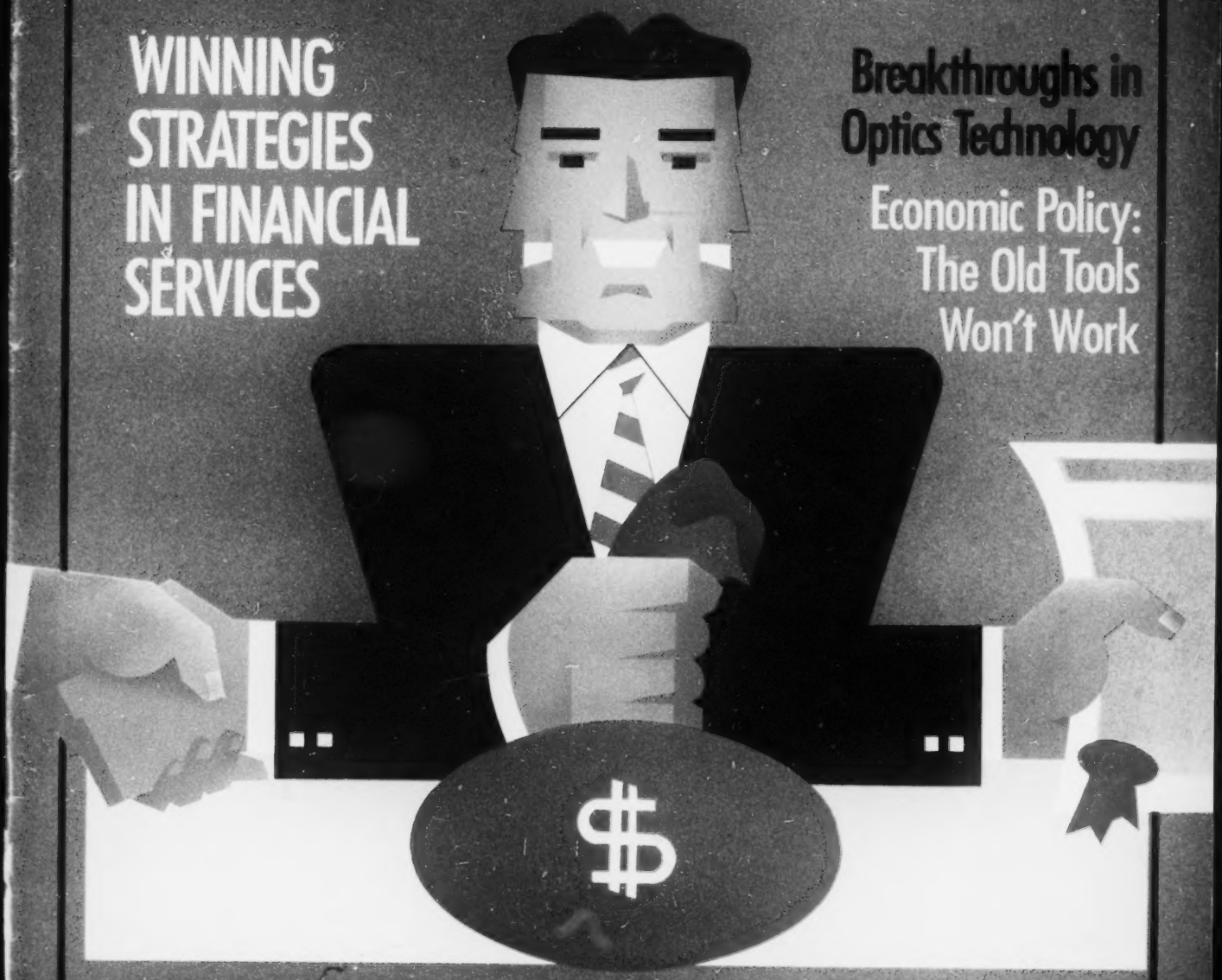
JANUARY 1987 $3.00

Here Comes the 'Tin' Parachute

WINNING STRATEGIES IN FINANCIAL SERVICES

Breakthroughs in Optics Technology

Economic Policy: The Old Tools Won't Work



ALSO FEATURING: THE BUSINESS NEWS OF THE MONTH

30

Feature Departments

ECONOMY

The Old Tools Won't Work 30
In an increasingly interdependent world economy, fiscal and monetary policies don't perform as they used to.

- **There's Nothing in the Arsenal** 33

Economic Perspective 35
With Elections Looming, Europe and Japan Reflate

TECHNOLOGY

Optics: Breaking The Light Barrier 36
Unprecedented innovations are on the horizon for a craft that has remained essentially unchanged since Galileo.

INTERNATIONAL

German Industry's Rush To Catch Up 42
Trying to close a yawning technology gap, West Germany is on a U.S. acquisition spree.

INDUSTRIES

Winning In Financial Services 46
The giants have been breaking their picks on the "financial supermarket," but better-focused strategies are succeeding. Profiles of six winners in:
Thrifts
Discount Brokers
Financial Planning
Insurance
Mutual Funds
Multi-Industry

Selling: Now What Do We Do? 54
Five years after the big push began, financial services heavyweights are at last trying to learn their marketing lessons.

HUMAN RESOURCES

A Think Tank That Works 56
Tiny but powerful, the Work in America Institute is on the cutting edge of the drive to restore U.S. competitiveness.

- **WAI: News You Can Use** 58

MANAGEMENT

Here Comes the 'Tin' Parachute 62
A potent new takeover defense tactic offers generous severance for everybody, with the raider footing the bill.

36

COVER ILLUSTRATION BY BOB SCOTT

DUN'S BUSINESS MONTH

January 1987, Vol. 129, No. 1

Eldercare: New Company Headache 64
Company programs come to the rescue of employees saddled with the care of ailing parents.

MARKETING

800: The Line Is Busy 66
AT&T's lucrative 800 service has revolutionized marketing. Now its rivals are going after a piece of the pie.

WASHINGTON

Business Lobbyists Battle Each Other 68
The competitiveness of the marketplace has displaced Washington lobbyists' united industry front.

Letters 4
Deregulation debate.

Managers in the News 7
Orion's star rises at Litton.

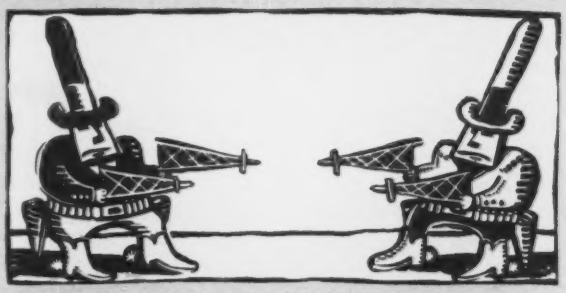
Managing Information 71
Computers help solve complex management problems.

Personal Finance 73
On Wall Street: Slow economy keeps the bull going.

After Tax Reform: The New Economics of Executive Pay 75

Investment Update 76

The Business Month



23

WASHINGTON

- *Reagan reels as scandal spreads* 19
- *Wright's big gamble*
- *Capital buzzword*

ECONOMY

- *Outlook mirrors 1986* 19
- *Trade picture brightens*

COMPANIES

- *Perot and GM part company* 20
- *Bid for BankAmerica turns hostile*
- *Douglas' MD-11 nears launch*
- *Merger roundup*
- *Honeywell's retreat*

INVESTMENTS

- *Fallout from Boesky* 22
- *SEC bucks for bigger budget*
- *Going after greenmailers*
- *Junk bond jitters*
- *Fed approves Japanese dealers*

INDUSTRIES

- *Pickens challenged* 23
- *Pentagon pushes data controls*
- *Fuel ruling raps GM, Ford*
- *7-11s test fast food*

MANAGEMENT

- *Citicorp sweetens the pot* 27

INTERNATIONAL

- *Ford, VW join forces* 27
- *British call for insider curbs*
- *Deutsche Bank spreads its net*
- *Debt crisis looms again*

ADVERTISING

- *Marketing mints like Marlboros* 28
- *Ad agencies in mini-mergers*
- *Newspapers' national rates cut*

ECONOMIC PERSPECTIVE

WITH ELECTIONS LOOMING, EUROPE AND JAPAN REFLATE

Last fall, economic pundits were despondently predicting that the powerful economies of Japan and Germany would slip into recession as the dollar's decline sapped their international competitiveness. Now they are sanguinely saying that government pump priming will trigger consumer spending and step up their economic growth rates.

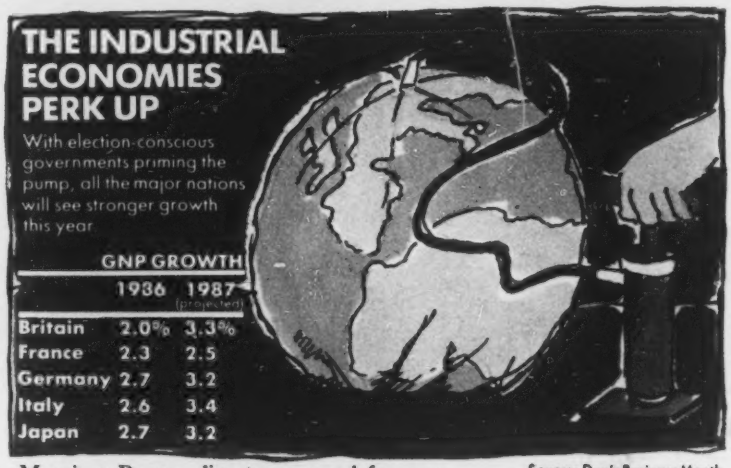
The turnabout will be most dramatic in Japan. In a bid to boost flagging domestic growth, the Japanese government recently bowed to U.S. pressure and lopped a half-point off its discount rate, making it 3% (the lowest level since 1945). Tokyo is also hiking public spending by $12 billion and is proposing to reduce personal income taxes.

Ten time zones away, European governments are also moving to reflate their economies. In Britain, the Tory government, which must call a general election by June 1988, uncharacteristically increased spending by £1.5 billion to insure a sixth year of continuous economic growth. And analysts in London are expecting a tax cut in March.

The pro-business government in France is also trimming income taxes as part of its "budget for growth." And Italy's exuberant young Treasury minister Giovanni Goria is said to be drawing up a giveaway budget.

Even the financially conservative German government, observes Ulrich Ramm, senior economist at Frankfurt's Commerzbank, is expected to overcome its dread of inflation. Assuming it is reelected in this month's general election, it is likely to announce a package of reflationary tax cuts for 1988.

All this stimulus, economists say, will speed expansion in the major industrial countries. They predict real GNP in Japan will rise 3.2% this year, compared with 2.7% last, while average growth in the twelve-nation European Community will hit 3.1%, up from 2.4% in 1986. Indeed, France and Italy are anticipating their best showing in years. "We'll see an adjustment from export-driven to domestic demand-led growth. But it will be respectable growth nonetheless," says Massimo Russo, director general for economic affairs at the European Commission.


THE INDUSTRIAL ECONOMIES PERK UP
With election-conscious governments priming the pump, all the major nations will see stronger growth this year
GNP GROWTH
1986
1987 (projected)
Britain 2.0% 3.3%
France 2.3 2.5
Germany 2.7 3.2
Italy 2.6 3.4
Japan 2.7 3.2

Source: Dun's Business Month

But the upsurge holds no hope for hard-pressed European manufacturers, which are suffering from export competition, or for Japanese exporters, hard hit by the dollar's decline. Their output will stagnate or fall this year and profits slip as foreign demand for their goods slumps. In Germany, the export volume is expected to fall at least 10%. "And in Japan our industry is already suffering badly," gripes Yoh Kurosawa, deputy president of Tokyo's Industrial Bank of Japan.

Industrialists also say they cannot wring any more out of low-energy costs, which will hold steady this year, or falling inflation, which will bottom out at its lowest level in twenty years (below 1% in Germany and Japan and an average 3% in the European Community). "There will be no windfalls to help us this year," says economist Alois Pfeiffer of Belgian steelmaker Cockerill Sambre.

Others will reap most of the profits from European and Japanese reflation. In particular, the cheap dollar will make U.S. consumer and electronic goods especially competitive. Higher American sales in Europe and Japan would help bring down last year's awesome surpluses (Japan's balance of payments was in the black by an estimated $80 billion and Germany's by $35 billion) and please Treasury Secretary James Baker no end.

But American salesmen had better get moving. The signs from Tokyo, Frankfurt, Paris and London suggest that so far the exporters of Tiger economies of Southeast Asia are the ones making the most of the situation.

— DAVID FAIRLAMB

ILLUSTRATION BY MINDY BALL

crease company costs for deferring compensation from 1987 to 1988 by 10%, but lower personal rates increase the executive's after-tax pay by 17%. "Most companies are willing to suffer the costs of pay deferral because of the disparate benefit to executives," says Hansen's Salwen.

The value of long-term deferrals depends on how long the 28% rate will stay in effect before it is raised. Some compensation experts argue that with lower tax rates, executives should bite the bullet on taxes now and invest after-tax dollars. Then, if rates rise again, they will be ahead.

But, counters TPF&C's Swinford, this ignores the incredible compounding and leveraging power of tax-deferred investing. Executives who can defer compensation and invest the money at 12% over ten years would have to be socked with a 55% tax rate to lose by deferring. Even at an 8% return, individual tax rates must climb to 46% to offset the benefit of deferring income for ten years.

But deferral, especially in unfunded and unsecured plans, is a dicey compensation game when corporate takeovers and restructurings are rampant. Deferred compensation agreements are often documented only in a file in the CEO's desk drawer. A new CEO will ask you to substantiate your claim.

One possible insurance policy is the rabbi trust, in which funds are set aside with a bank that invests them and pays the benefits, usually upon retirement. So named when the IRS approved a synagogue's deferred compensation trust for a rabbi that protected his claim in the event of a change in the board, the IRS last summer made these easier to get.

Unlike conventional pension plans, contributions to a rabbi trust are not deductible by the company until payments are made to the executive; plus the trust assets must be available to company creditors in the event of bankruptcy. For executives, however, says attorney and compensation specialist Joseph E. Bachelder, "they are better than annuities in the employee's name, which are immediately taxable to the employee. Annuities in the company's name provide no security." Hansen's Salwen agrees that rabbi trusts are the best bet for securing deferred compensation. Another possibility, letters of credit, he opposes on the grounds that they "are tough to get, their tax treatment is unclear, and they have only a short-term horizon."

The new law's limits on retirement plans for the highly paid are encouraging companies to create supplemental retirement plans and "mirror" or "parallel" 401(k) plans. These are promises to pay additional benefits at a later date; the company neither funds these nor deducts the costs.

Under the new law, there is a $7,000 maximum contribution to 401(k) plans; reduced maximum pension benefits for early retirees (as low as $40,000 for retirees age 55); a 15% excise tax on top of regular income taxes for aggregate annual retirement, savings, annuity and IRA distributions of more than $112,500; and a limit of $200,000 in annual compensation used to calculate qualified retirement and savings plans. If these ceilings apply to you, you may negotiate to set up a phantom account to appreciate at an agreed-upon interest rate, which will be collected on retirement. In practice, companies are unlikely to fund these accounts, so the executive's ability to collect will depend on whether the company will honor the agreement.

Some companies, moreover, are likely to abandon nonqualified stock options in favor of cash incentives based on earnings per share or return on equity or even cash flow. These will probably resemble current incentive plans for divisional managers.

What will happen to compensation? Hansen found that 16% of companies responding to a survey say that it's "possible" or "very likely" that pay increases will be reduced. But, says Hansen's Salwen, executives will not feel the bite. A $5,000 raise in 1986 took $10,000 in pretax dollars, costing the company $5,400 after taxes. A raise of $5,000 in 1988 will cost the company as little as $6,950 and less than $4,600 after taxes. —D.J.F.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(11/28/86) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$27.31/share	$10,255	$12,693
per cent change		+2.6%	+26.9%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$136.81	$10,354	$12,011
ACCUMULATED INCOME		$74	$1,031
TOTAL		$10,428	$13,042
per cent change		+4.3%	+30.4%
Money Market Fund	5.21%	$10,042	$10,643
per cent change		+.4%	+6.4%
Gold (Krugerrands)	$391.00/oz.	$9,640	$12,012
per cent change		−3.6%	+20.1%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$108,700	$108,600	$94,800
per cent change		+.09%	+12.7%
New House	$122,600	$127,500	$105,900
per cent change		+3.9%	+13.6%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes,Inc.; Federal Home Loan Bank Board.